



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-252350

April 2, 1993

Mr. James M. Taylor
Executive Director for Operations
U.S. Nuclear Regulatory Commission

Dear Mr. Taylor:

Your letter to the Comptroller General requesting a clarification or an exception to a requirement in Title 7, "Fiscal Guidance," of GAO's Policy and Procedures Manual for Guidance of Federal Agencies has been forwarded to our office for response. The Title 7 requirement states that agencies should record intragovernmental billings as deferred items (expenses or prepayments) if payment is made prior to the receipt of goods and services ordered. We contacted your staff to supplement the descriptions of your processes as presented in your letter but we did not review the actual application of the Nuclear Regulatory Commission's (NRC) procedures.

The basis of your request is an Inspector General's (IG) report which cited NRC for noncompliance with the above Title 7 requirement. The IG recommended that NRC establish a deferred item rather than an expense in order to facilitate adequate control and follow-up on orders paid for but not yet received. Your staff stated, however, that NRC's procedures ensure that adequate control and follow-up occurs. Also, your staff pointed out that the current system employed by NRC satisfies other GAO and Treasury requirements, namely those calling for timely recognition of transactions and those that facilitate reconciliation of cash balances with Treasury.

In practice, intragovernmental payments often occur before the ordering agency receives its order when using the Treasury On-Line Payment and Collection (OPAC) system. When the performing agency processes a bill through the OPAC system, the system automatically credits the billing agency and charges the ordering agency without prior approval to facilitate prompt payment. The system then notifies each

agency of the entries made. If the billing occurs while the items are in shipment, being delivered, or being inspected, the ordering agency has, in effect, paid for but not received or accepted its order.

Under your current system, the staff of NRC accounting operations records an expense and a corresponding reduction in its Funds with Treasury account upon receipt of notification of payment from the OPAC system. This information is then sent to the responsible NRC project manager for verification of receipt of the items ordered. Project managers are provided 20 days to verify receipt, after which follow-up action is taken by the accounting operations staff until a response is received. While this procedure may ultimately satisfy the intended control objective, the IG believes that the Title 7 requirement calls for immediate recognition of a deferred item (for example, recording a deferred or prepaid expense) for the payments made in advance of receipt of ordered goods, pending final acceptance of the goods, at which time an expense should be recognized and the deferred item reduced.

We are responding to your request with a clarification of the Title 7 requirement. There are two main purposes for the Title 7 requirement to record a deferred item. First, it helps ensure that immediate recognition of the payment occurs and that the necessary controls are established to facilitate adequate monitoring and adjustment of all transactions where payment is made prior to final acceptance of items ordered. The recognition of a deferred item acts as a mechanism to ensure adequate follow-up since it is visible to management and will require continuous adjustment to maintain a current balance in the account. Second, it helps ensure that year-end reported expenses and deferred items are accurate.

Although Title 7 requires the recognition of a deferred item for goods and services paid for prior to receipt, we do not consider an agency in violation of the requirement so long as its practices achieve the control objectives described above. Although your system, as described to us, includes follow-up procedures to verify acceptance of items paid for prior to receipt, it does not contain a mechanism that is visible to management showing the status and aging of payments made prior to the receipt of items ordered that have not been verified as accepted. Also, the system described to us does not include year-end cut-off procedures for payments made in advance of receipt of items ordered.

Under your accounting system, year-end cut-off procedures are necessary to ensure that adjustments are made to reduce the expense account and recognize a deferred or prepaid expense for those items NRC has not yet received. These adjustments are necessary for reporting accurate amounts in the Report on Operations (Standard Form 221) and Report on Financial Position (Standard Form 220) required at year-end to be submitted to Treasury.

While recognition of a deferred item is not necessary to comply with this Title 7 requirement, alternative control techniques should be implemented by management to ensure adequate follow-up on open items. We suggest that NRC implement an alternative control, such as a periodic report to management listing the status and aging of open items. Furthermore, we suggest that effective cut-off procedures also be implemented at NRC.

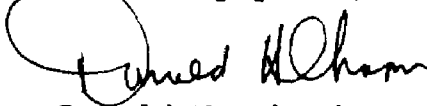
We are currently updating Title 7 and intend to add an explanation clarifying the requirement pertaining to recording deferred items when payment is made prior to receipt of goods ordered. The explanation will highlight the purpose of the requirement and the reason for recognizing a deferred item.

Your request also asked for an explanation of the requirements contained in the Treasury Financial Manual (TFM) pertaining to the OPAC system. For an official response regarding TFM matters and the OPAC system, we suggest you contact Mr. Jerome Patterson, Branch Manager, Financial Requirements Division, Financial Management Service, Treasury at (202) 874-7960.

We discussed our position regarding your request with Mr. Anthony Rossi of your staff.

We hope this response is helpful to you. Should you have any questions, please contact Mr. John W. Hill Jr., Director, Audit Support and Analysis, at (202) 512-8549.

Sincerely yours,



Donald H. Chapin
Assistant Comptroller General

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